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TAGS: [PGOV](#) [PHUM](#) [GG](#)
SUBJECT: GEORGIA: GOG REQUEST FOR ASSISTANCE

¶1. Prime Minister Lado Gurgenedze presented a proposed stabilization and reconstruction package to us on August 12 on behalf of the Georgian government. The PM urged the USG to consider a quick, positive response to the request for a standby facility to bolster their efforts to ensure liquidity in the financial system and to send a clear message of USG support for Georgia. He emphasized to us that the fundamentals of the economy are strong, and they are managing their way through the crisis. Like many standby facilities, he thought it would not be used. The PM noted that such a facility would provide a tangible guarantee to investors and depositors, and help restore confidence in an economy that has been a star performer in the past several years and is likely to continue to be so. He stated without reservation that no other institution - not the IMF, the WB, nor any other bilateral - could create support for the Saakashvili government that this type of U.S. support would provide.

¶2. The components of the proposal address critical economic or budget challenges that the GoG faces. The G provided basic justifications for the proposals, and the PM and his government are anxious to expand upon them. With the exception of the reinsurance and IDP facility proposals, the GoG is asking for loans, for which they are ready to pay nominal fees. They are not asking for handouts, but rather, they are asking for our help to help themselves.

Begin Text

The Georgia Assistance package proposal
USD1 bn standby five-year loan facility to the National Bank of Georgia

Why: to ensure there is no loss of confidence in the Georgian banking sector

USD100 mln reinsurance pool for inbound vessels/cargo

Why: beginning from Saturday, as the Russian navy ships were sighted nearby Poti, many freight forwarders/shipping companies showed reluctance to ship to our Ports, due to the marked increase in insurance costs. This facility won't protect us from an out-and-out blockade or seizure or (obviously) obliteration of our ports, but would ensure the supplies flow (in and out) during periods of uncertainty

Key Infrastructure Repo Agreement

Explanation: a list of Key Infrastructure is agreed upon, including our ports, roads, electricity infrastructure, airports and so on - both state and private-owned (optional for the private parties, of course). The US and Georgia enter into an agreement which allows the owners of this designated infrastructure to transfer the title to the assets for USD1 to the United States, and repurchase the assets for the same symbolic price. It is essential we are able to transfer the title on short notice

Why: a confidence-enhancing measure for our infrastructure investors/lenders etc. If they opt in, they would be essentially guaranteed that their assets will not be destroyed during any period of uncertainty (as it is unimaginable that anyone would knowingly target the US-owned assets). We have been planning to attract about USD2 billion of infrastructure investment in the next 2-3 years, it is essential we are able to do so to support the high GDP growth rates

USD300 mln highway expansion and rehabilitation loan facility

Why: we have been discussing private funding to complete this. In the current environment, it will be a while before we can get this initiative privately funded, so this facility would allow us to proceed with this important project without delay.

USD100 mln agribusiness & export facilitation three-year loan facility

Why: the government would on-lend the fund to the agriculture and export-focused SMEs, in order to alleviate social pressures in rural areas (50 percent of the population, 10 percent of GDP - unsustainable) and stimulate exports to improve our balance of payments. We have started this program on our own in 2008 (Affordable Credit), have disbursed about 30 million Lari to date (loan sizes range from 10,000 to 1 million Lari), and the program is very popular. We have both the legislative framework (it's in the 2008 budget law) and disbursement & monitoring infrastructure. The US loan would allow us to keep the program alive despite the inevitable budget cuts as the tax revenue collection dips in the aftermath of the Russian aggression. The loan would be repaid fully by the Georgian state regardless of the collection rates/performance of the SME loans.

USD100 mln IDP settlement/assistance facility

Why: We were already stretched in terms of budget assistance to the IDPs etc. The inevitable dip in the budget revenue will make it even harder to support them/help settle etc, especially given that their numbers are likely to increase. We'd appreciate it if this were a grant, rather than a loan, given its humanitarian nature

Free Trade Agreement

Why: As you are aware, we have one of the freest trade regimes in the world (no import tariffs or any other restrictions of any kind, etc), so it's a matter of partner-like reciprocity, and a very strong political message as well.

END TEXT

TEFFT